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# Methods of developing a competitive strategy of the agricultural enterprise

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**Abstract.** This article examines the features of the use of various strategies, as the basis for creating a competitive advantage of an agribusiness with stable positions both for entry and for keeping a high level during various financial changes in a market economy. Developed or selected strategy should be based on a comprehensive analysis of the business with strengths and weaknesses. The distinction between the strengths and weaknesses of a business, and accordingly the grouping of its features into advantages and disadvantages, allows them to be more accurately taken into account when choosing a strategy that provides competitive advantages. The reasons for the poor viability of various business aspects are the lack of development and the validity of strategies that reduce both the competitiveness and profitability of various enterprises. The given structure of strategies and their correct modernization in business will make it possible to enhance the stability of the presence of an enterprise afloat of financial success. Competitive advantages of a business are the advantages manifested in the position of the firm in the market, which is more advantageous in relation to competitors and is achieved using methods and tools of strategic planning that take into account the characteristics of small business.

## 1. Introduction

Nowadays we can say that the issues of developing a competitive strategy should be resolved, because only with the help of developed strategy, any agroindustrial, machine-building, aerospace and etc. enterprise can maximize its market opportunities, offer its services and receive the highest possible price that will allow recouping all the costs. [1]

A business development strategy is an effective business concept that is complemented by a variety of real actions that can lead this concept to achieve significant competitive advantages over a long time. When developing a strategy, you need to be based on a deep understanding of the market. [2]

## 2. Strategy-concepts and definitions

Strategy - a course of action in the form of an interconnected complex of managerial decisions ensuring the goals achievement.

In the literature, there are two main opposing views on understanding the strategy. In the first case, a strategy is a specific long-term plan for achieving a specific long-term goal, and developing a strategy



is the process of finding a certain goal and drawing up a long-term plan. Such an approach is based on the fact that all the changes that occur are predictable, the processes occurring in the environment are deterministic in nature and are amenable to complete control and management. Moreover, in the second case, the strategy gives answers to the questions: in what way, with the help of what actions can the organization achieve its goals in a changing environment and competitive environment. Usually, this definition is used in strategic management and strategic planning. [2, 3]

From a business standpoint, the purpose of the strategy is to achieve long-term business advantages when discussing a controversial position. Such a strategy is a generalizing model of actions necessary to achieve the goals set through coordination, optimal distribution and planning of all communication process components. [4]

### 3. Methods of developing a competitive strategy

The impetus for using the strategy of reducing the cost of production is a significant saving on the scale of production and attracting a large number of consumers, for whom price is the determining factor when buying. The strategy focuses on the mass release of standard products, which is usually more efficient and requires less unit costs than making small batches of heterogeneous products. In this case, savings on variable costs are achieved due to the high specialization of production [4, 5].

In modern conditions, the cost reduction strategy is particularly relevant. If the products are not essential goods and in connection with a decrease in the purchasing power of the population, the demand for them will significantly decrease. Therefore, manufacturers need to look for reserves to reduce production costs. Savings, causing the actual cost reduction, is calculated according to the following factors:

- The technical increasing of the production level. The savings from the implementation of the event is determined by comparing the magnitude of the cost per unit of output before and after the events and multiplying the difference obtained by the volume of production in the planned year, is given in formula:

$$CS = (CU - CE) * PV \quad (1)$$

where  $CS$  - direct current cost savings;  $CU$  - direct current costs per unit of production before the event implementation;  $CE$  - direct current costs after the event implementation;  $PV$  - the volume of production in physical units from the beginning of the implementation of the event to the end of the planned year.

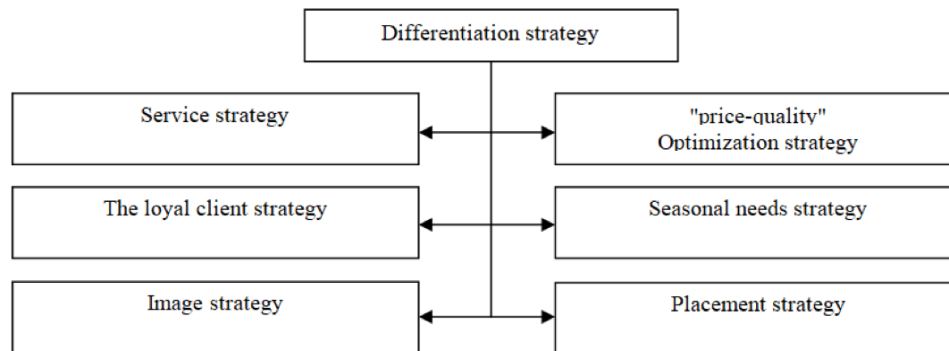
- Improving the organization of production and labor. Cost reduction may occur as a result of changes in the organization of production, forms and methods of labor in the development of production specialization; improving production management and reducing its costs.
- Change in the volume and structure of products, which can lead to a relative decrease in conditionally fixed costs, a relative decrease in depreciation deduction.

The main advantage of the cost reduction strategy is an additional increase in sales and obtaining super-profits by reducing the market share of competitors with a higher cost (whole) for similar products. In addition, the low cost allows you to tighten the entrance barrier to the industry. Enterprises that aspire to this business and have higher unit costs for the production and marketing of products have little chance of successful business organization.

A company has a competitive advantage in a certain market of goods and services if the amount of economic profit, which its operations sustainably provide, on average exceeds the amount of economic profit of competing companies operating on the same market. It is believed that several companies compete in the same market if decisions in the sphere of production, pricing or marketing of one company significantly influence the level of economic profit that other companies can receive. In general, the differentiation strategies are presented in figure 1.

The product differentiation strategy is to have an external, competitive advantage that relies on the company's marketing know-how, its superiority in identifying and meeting the expectations of those dissatisfied with existing goods and services of customers. The differentiation strategy is aimed at

providing the market with more attractive goods and services that have higher consumer characteristics than competing products



**Figure 1.** Differentiation strategy.

A company gains a competitive advantage in the market in two ways - if it offers the consumers goods and services that give more value at the same cost (differentiation), or provides equal value, but at a lower price (low cost). In differentiation, the focus is on creating a product (a set of tangible and intangible attributes), which is perceived by the consumer as “something unique”. These may be design features or product performance characteristics, excellent service, a prestigious brand.

Each manufacturer decides for himself how to position his product, as it is cheaper, or as more useful, original, high-quality. Combining these two strategies is almost impossible. On this occasion, marketers say: "The more significant is the difference between your product and competitors' products, the more justified is every extra zero in its price tag.

The essence of the differentiation strategy is to find ways to be the only one who offers customers the additional properties of the product that they want, and constantly maintain this advantage.

Competent differentiation with time gives the following results:

- Profit growth, even if the market share remains unchanged.
- The market share increasing, this also provides revenue growth, even if the prices are comparable with the prices of competitors.
- The combination of growth in market share and income.
- Income received covers investment costs and costs associated with creating a differentiation strategy.

If none of the results is achieved, it should be recognized that the unsuccessful differentiation strategy was used, and the funds invested in it were wasted.

The types of differentiation:

- Differentiation of the offer is a higher (compared to competitors) level of service, providing the client with additional and extended services, not directly related to the product.
- The service differentiation is an offer of additional services that accompany the offered product, which the client, one way or another, needs before purchasing or after it. This may be training and consulting, speed and reliability of supplies, installation, and service.
- Price differentiation - the offer of similar goods and services at different prices for different categories of customers, one of the methods of competition. Differences in prices are due either to price discrimination or to product differentiation
- Personnel differentiation is related to the recruitment and training of personnel who perform their functions more effectively than competitors' personnel do. Most often, staff differentiation is used in the provision of services.

- Differentiation of image (branding) is to create a certain image of the company and its goods and services, which is different from the competitors. It is achieved exclusively by effective advertising. Product differentiation is the production of a wide range of products similar to each other, with only small differences that satisfy the same need of different groups of consumers.

Characteristics and design of the proposed product should be better than the competition. Differences arise using other production technologies, materials from which products are manufactured, quality of work or other indicators.

Stages of a successful product differentiation strategy:

- The name of the product must be unique, well perceived by ear, easy to remember, be suitable for use in various brand communications and, if necessary, can be used in a different context.
- Product identification must have sticking brand labels on it, developing a system of signs and symbols that in clear language convey the brand idea and strategy to the target audience.
- Personification of the product - the definition of "advertising person" of the brand. People are arranged in such a way that they want to deal with real people and buy from people they know and trust. Personification implies that a person who advertises a product or service is responsible for its quality.
- The creating of new classes and product groups. Ideas for creating new products and services may appear in the course of analyzing the possibilities of production and sales, as well as in the researching of potential market needs.

Depending on the characteristics of specific goods and services, as well as on the basis of the company's capabilities, it is possible to simultaneously implement areas of differentiation:

- The real differentiation is associated with the production of different goods, using different technologies.
- "Cosmetic" differentiation mainly affects the design and packaging of goods and is not related to making changes in the production process.
- "Brand differentiation" - the differentiation of products under the trademarks of companies.

The company can simultaneously produce both standardized and differentiated products. The advantages of standardization: reducing the cost of production, sales and service, accelerating the return on investment, simplifying the organization and control of production.

Disadvantages of standardization: incomplete response to the specific requirements of different market segments, insufficient flexibility in responding to changes in market conditions, difficulties in introducing innovations.

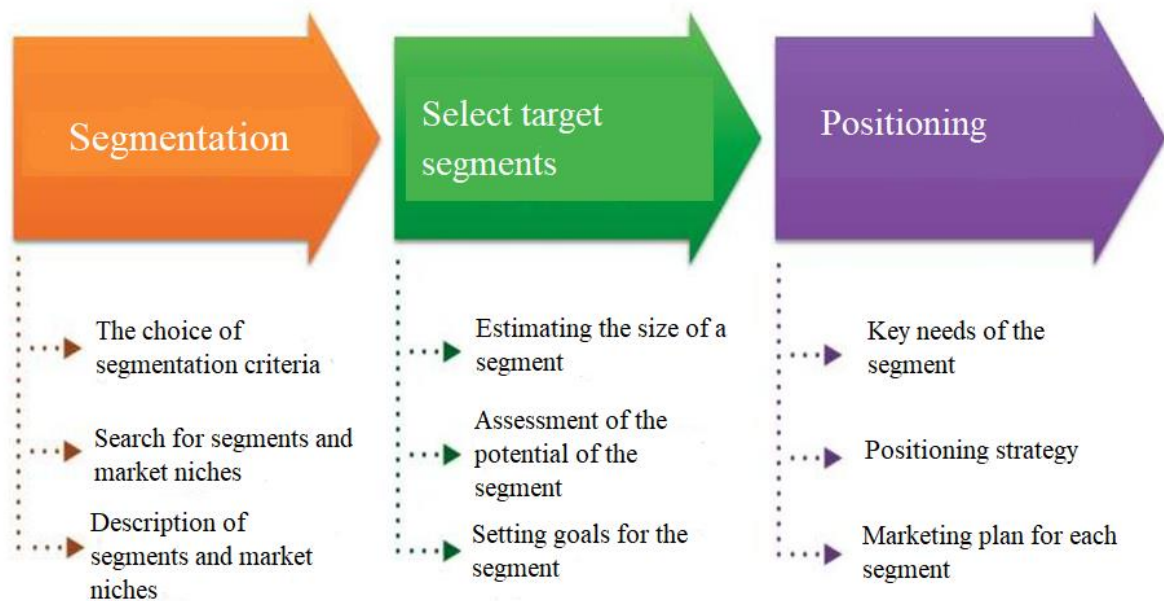
The advantages of differentiation: careful consideration of customer requirements in the markets of individual countries and regions.

Disadvantages of differentiation: the complexity of implementation and high cost.

The decision-making in positioning the product and its differentiation in the market allows the company's management to proceed the further development of the marketing.

If the provided competitive strategies are based on serving the entire market, the segmentation strategy is aimed at providing advantages over competitors in a particular and single market segment, distinguished on the basis of geographical, psychographic, behavioral, demographic or other segmentation principles.

The basic idea is that a company can serve its target market more efficiently than competitors who disperse their resources throughout the market. As a result, a competitive advantage is created either by differentiating the goods on the basis of more satisfied target market, or by achieving lower costs in servicing the selected segment [6]. The stages of the market segmentation process are depicted in figure 2.



**Figure 2.** The process of market segmentation.

A firm focused on competitive advantages achieved as a result of market segmentation does not pursue the goal of providing leadership in cost reduction or product differentiation throughout the market. Having a low production cost or offering a large selection of products for a particular segment, the company protects itself from competitors using other strategies.

In modern marketing, there are not only extensive classifications of segmentation features. Various models with the help of which the aggregate of consumers is divided according to the chosen attributes are also offered. Such models include non-formalized (representing qualitative characteristics for the description of segments with the impossibility of their mathematical description) and formalized (containing numerical parameters of the studied segments). According to the level of the simulated segments system, there are macro- and micro-segmentation is distinguished. These methods can be empirical (based on the primary collection of information about consumers) and theoretical (based on the first formulation of the working hypothesis and its subsequent verification by collecting actual information about the segments). [7]

There are two models of market division. One-parameter methods involve the selection of one main segmentation variable. The analyst establishes a classifier structure according to which consumers belong to a segment. The number of possible segments and their distinctive property set through a range of values of the most important parameter are set. The specific values are set for the selected variable.

Multi-parametric approaches are used more often and involve the analysis of a segmentation features set that describe the properties of the consumers being studied. There are two possible approaches. At the first segmentation signs are analyzed sequentially one after the other. This approach is implemented through the compilation of a segment tree and a AID method (it involves segmentation by priority segments identified in the previous stages of the method. At each step, we get the segments that are subjected to splitting using the following analyzed feature. The analyst himself determines the sequence of signs application for the consumers' segmentation and their assignment to the segments. In the second approach, all selected features are eliminated together. In this case, the analyst can investigate either a tree of possible unions, or specify the desired number of clusters.

There is also a hybrid segmentation - it is the division of the market on a priority basis, which is intensified by the cluster grouping. Discriminant segmentation is used to set the segments profile and finding links between different signs. It is usually based on the use of multiple discriminant or regression analysis. Multi-attributive segmentation (product segmentation) is based on characteristics determining of the most important to consumers' goods and assessing of their presence in the product of the

enterprise. For this purpose, the consumer preferences tables and enterprise capabilities are built. The result is the determination of the most appropriate samples or product options for each segment. [8]

Recently, thanks to the development of electronic marketing information processing systems and special software, cluster segmentation has been actively used. It allows you to group objects of different nature, and to find groups of objects with segmental signs for any set of variables.

The general idea of cluster analysis comes down to solving the following problems: consumer classification; development of various clustering schemes; creating hypotheses about the existence of homogeneous groups; testing of homogeneous groups presence hypotheses. The result of cluster analysis is the assignment of each unit to a specific segment.

J.J. Lambin considers segmentation based on a segmentation grid. This model of market division is used when the number of analyzed signs is small and has two or three analyzed properties. In this case, the allocated segments are represented in the form of table cells, appearing at the intersection of various ranges of the considered features. The constructed segmentation structure makes it possible to appreciate the position of the existing segments, while the empty cells reflect the position of the new potential segments.

There are three segmentation strategies:

- The strategy of mass marketing - the company enters the entire market with one product.
- Concentrated marketing strategy - the company focuses its efforts on one market segment.
- The strategy of differentiated marketing - the company covers several segments and produces their own product for each of them.

The main task of implementing this strategy is to stay ahead of the competitors by offering the buyer any innovation [9].

This should be the production of a new product, a new way to promote the product to the market, and a new way of management. The company is not interested in any costs or product differentiation. It is important for the company to win a monopoly position in the market. Such a company will receive super-profit during a certain period, while its rights to inventions are in force. Most companies that have a monopoly influence on the market apply this strategy. Such firms usually have a business venture organization and a matrix management structure.

Venture companies have increased risk, in a special position. 3 out of 5 venture firms are unprofitable, but the other two make more profit than loss.

Applying such a strategy requires a strong experimental design base, highly qualified personnel and large funds for research and development - research and development. [10]

The company allocates large investments for the exploration of the market and demand researching. The presence of large demand and the lack of analogues creates favorable conditions for the activities of firms. More often, this strategy ends in failure due to the reluctance of the market to accept a new product, or due to flaws in this product.

This strategy is realized in different stages:

- The innovation management strategies analysis.
- Analysis of priorities, goals and objectives of the enterprise - setting priorities and evaluating investments in certain areas.
- The actions of competitors are analyzed, and demand analysis is carried out - a study of needs, consumer complaints, market situation. This is the most difficult.
- Brainstorming. The proposals for the production of a new product are made and the selection of ideas is carried out.
- The marketing is carried out: the target group is allocated. The sales volume, necessary expenses, profit, prices and other financial and economic indicators are calculated for it. The objectives of the company are determined.
- Trial sales: firstly, testing is performed in the laboratory then in the market. The conclusions are made, data is analyzed, errors are corrected and the decision of the goods launch is made.

- After the launch of the product on the market, various researches aimed to improve the quality of the product such as the frequency of purchases, the dynamics are conducted.

The presence of effective demand for a specific type of product creates its offer. In practice, most enterprises are not able to engage in activities that do not correspond their profile.

In contrast to such enterprises, firms that implement an immediate response strategy to market needs are aimed at meeting the arising needs in various business sectors as quickly as possible. The main principle of behavior is the selection and implementation of the most profitable projects in the current market conditions. Enterprises aimed at quick response are ready for immediate reorientation of production, changing its scale in order to obtain maximum profit in a short period, despite the high unit costs, determined by the absence of any specialization of its production.

Table 1 presents the characteristics of an immediate response strategy.

**Table 1.** A characteristic of an immediate response to the market needs strategy.

Strategy options	Strategy characteristics
Advantages	<ul style="list-style-type: none"> <li>• Getting super profits</li> <li>• High consumer interest in purchasing goods</li> <li>• A small number of substitute goods</li> <li>• Creating an image of a company that is ready to sacrifice everything to meet the needs of the buyer immediately</li> </ul>
Required market conditions	<ul style="list-style-type: none"> <li>• The products demand is inelastic</li> <li>• “Entrance” and “exit” from the industry are not difficult</li> <li>• A small number of competitors</li> <li>• Market instability</li> </ul>
Organization`s production and management requirements	<ul style="list-style-type: none"> <li>• A small flexible non-specialized enterprise with a high degree</li> <li>• Project structure</li> <li>• High degree of staff mobility</li> <li>• Marketing service focused only on highly profitable short-term projects</li> </ul>
Destabilizing factors	<ul style="list-style-type: none"> <li>• High unit costs</li> <li>• Lack of long-term prospects in a particular business</li> <li>• A large number of destabilizing environmental factors</li> <li>• Noprofit guarantees</li> <li>• High bankruptcy risk</li> </ul>

Most modern companies with a wide range of products and various business areas simultaneously use several competition strategies for different product groups, regions or periods of their development.

The main criterion for the choice of strategy is the adaptation of its capabilities to specific market conditions.

#### 4. Conclusion

The competitiveness of an enterprise is the level of its potential, which ensures the ability to retain or expand its market share in a competitive environment. There are many strategies to achieve competitive advantages, but the basic competitive strategies are: a strategy to reduce product costs, a product differentiation strategy to create a competitive advantage, a segmentation strategy, an innovation strategy, an immediate response strategy to market needs.

In order to manage an enterprise effectively, a manager must have a strategic mindset and the ability to develop a strategy correctly. This requires analyzing the external environment very carefully, in order to know when to make changes to the strategy, because a properly constructed strategy can determine



the competitive advantages of an enterprise. The manager must be familiar enough with the company's activities in order to know what changes to make to the strategy.

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